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SUBJECT: THE KUWAIT BANKING SECTOR: 2009 PRIMER

REF:

- [1](#)A. 08 KUWAIT 1155
- [1](#)B. 08 KUWAIT 1123
- [1](#)C. 09 KUWAIT 853
- [1](#)D. 09 KUWAIT 619
- [1](#)E. 09 KUWAIT 599
- [1](#)F. 08 KUWAIT 1183

[1](#)1. (SBU) Summary: Kuwait's banking sector, the third largest in the GCC after Saudi Arabia and the United Arab Emirates, comprises 18 financial institutions, including market leaders National Bank of Kuwait (NBK), and Kuwait Finance House (KFH), the second largest Islamic bank in the world. With the notable exception of Gulf Bank -- which required GOK intervention and a major recapitalization in late 2008 following currency trading losses -- Kuwait's banks have weathered the global financial crisis. This cable outlines the banking sector as a whole, and describes the major players within each of the two main sub-sectors: commercial banking and Islamic banking. End Summary.

[1](#)2. (U) The banking sector of Kuwait is one of the largest in the Gulf region, with total banking assets amounting to KD 39.1 billion or USD 136.4 billion (as of August 2009), according to the Central Bank of Kuwait. The banking sector comprises 18 banks: six conventional (commercial) banks, three Islamic banks, eight branches of foreign banks and one specialized bank. The six commercial banks include market leader National Bank of Kuwait (NBK), Commercial Bank of Kuwait (CBK), Gulf Bank, Al-Ahli Bank of Kuwait, the Bank of Kuwait and the Middle East (BKME) and Burgan Bank. BKME received permission from the Central Bank to convert to an Islamic bank, a process that is expected to be completed in 2010. The three Sharia-compliant banks are currently Kuwait Finance House (KFH), the clear market leader in Islamic banking, Boubyan Bank, and Kuwait International Bank (KIB, formerly Kuwait Real Estate Bank, which converted to an Islamic bank in mid-2008). On September 15, Kuwait's cabinet issued a decree forming Warba Bank, which will become the newest Islamic bank in the country. KIB's conversion leaves one remaining specialized bank, the Industrial Bank of Kuwait.

[1](#)3. (U) The Central Bank has granted licenses to 10 foreign banks thus far, eight of which have active operations in Kuwait. BNP Paribas and HSBC began operations in 2005, Citibank and the National Bank of Abu Dhabi opened in 2006, Qatar National Bank commenced operations in 2007, and Doha Bank opened its office in 2008. Dubai-based Mashreq Bank began operations in mid-2009 and the Bank of Muscat and Riyadh-based Al Rajhi Bank (the largest Islamic bank in the world) are both expected to open branches in Kuwait in 2010. The Bank of Bahrain and Kuwait (BBK) has operated in Kuwait since [1](#)1977. Foreign-owned banks' branches are not allowed to compete in the retail banking sector and are confined to one branch office in Kuwait.

[1](#)4. (SBU) Total assets of Kuwaiti banks stood at KD 39.1 billion (USD

136.4 billion) as of August 2009, compared with KD 38.7 billion (USD 135.1 billion) for August 2008 and KD 32.1 billion (USD 112.0 billion) for August 2007. Kuwaiti banks' aggregate profit for the first six months of 2009 amounted to KD 223.9 million (USD 781.5 million), compared to KD 634.2 million (USD 2.2 billion) for the first six months of 2008. Unsurprisingly, most banks experienced a significant decline in profits during this period, as Kuwait's stock and property markets dropped sharply and lending growth decelerated. Gulf Bank, which was hit by currency trading losses totaling more than USD 1.4 billion in late 2008, was the only large Kuwaiti bank to record a net loss in the first half of 2009.

Top Three Commercial (Non-Islamic) Banks

15. (SBU) National Bank of Kuwait (NBK): Kuwait's preeminent bank, NBK, was established in 1952 by a consortium of Kuwaiti merchant families and was the first indigenous bank in Kuwait and the wider Gulf region. With total assets of KD 11.6 billion (USD 43.4 billion) as of December 2008, NBK is ranked among the top 300 banks in the world and is the only bank in the Arab world to be named in Global Finance magazine's "50 safest banks" rankings for 2009. NBK has the widest branch network of any financial institution in the Middle East, with 155 branches worldwide including 69 in Kuwait. The bank enjoys an A+ credit rating from Standard & Poor's (S&P) and is believed to have minimal exposure (approximately USD 10 million) to the troubled Al-Gosaibi and Saad groups in Saudi Arabia. The bank's major shareholders include some of the same Kuwaiti merchant families party to the bank's establishment, including the Al-Bahar, Al-Sayer, Al-Sager, Al-Kharafi, Al-Fulaij and Al-Hamad families. NBK's chief is Ibrahim Dabdoub, a highly respected Palestinian banker who joined the firm in 1961 and has served as CEO since 1983.

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NBK's management is now seeking to compete with KFH in the Islamic banking sphere -- in recent weeks the bank has purchased large stakes in Shariah-compliant Boubyan Bank from the Kuwait Investment Authority (KIA) and other investors, bringing NBK's ownership of Boubyan to 40%. NBK spokesmen have made clear the bank's intention to become the majority owner of Boubyan Bank, currently Kuwait's second largest Islamic Bank.

16. (SBU) Gulf Bank: Kuwait's third largest bank by assets (KD 4.9 billion or USD 18.4 billion), Gulf Bank was, until recently, hailed as the country's fastest growing bank. However, the bank's reputation suffered following the October 2008 disclosure of currency trading losses exceeding USD 1.4 billion and the subsequent efforts to shore up the firm's capital base and appoint a new board of directors; KIA took a 16% stake in the bank as part of a USD 1.4 billion recapitalization (refs A and B). Media and other sources suggest that Gulf Bank may also face significant exposure to the ailing Saad and Al-Gosaibi groups in Saudi Arabia. While the bank has declined to reveal the extent of such exposure, sources in the financial community assert that the figure is approximately USD 400 million to USD 500 million. Gulf Bank's S&P rating is currently BBB+. In addition to the KIA, the bank's other major shareholder is the Alghanim family. (Note: Kutayba Alghanim replaced his estranged brother, Bassem, as chairman of the board of the directors following the October 2008 losses, before handing over to Ali Al-Rashaid Al-Bader, a respected former KIA chief. Kutayba's son, Omar, the CEO of Alghanim Industries, now represents the family on the board of directors. End Note). Gulf Bank's CEO is Michel Accad, a Lebanese national, who replaced American Louis Myers in April 2009.

17. (SBU) Commercial Bank of Kuwait (CBK): One of Kuwait's big four retail banks, CBK (also known as Tijari) was established by Amiri Decree in 1960 and now operates 53 branches in Kuwait. CBK has assets of approximately KD 4.3 billion (USD 16 billion) and posted a modest profit for the first six months of 2009. The bank's S&P credit rating is A-. Investment vehicles controlled by the ruling Al-Sabah family own approximately 23% of CBK. The bank's chairman, AbdulMajeed Al-Shatti, was chairman of the GOK's ad hoc committee on dealing with the effects of the global financial crisis, which convened intermittently in late 2008 and early 2009.

Islamic Banks: One Plus Two

¶18. (SBU) Kuwait Finance House (KFH): Established in 1977, KFH is one of the world's preeminent Islamic banks and the second largest bank in Kuwait. KFH owns banks in several Middle East and Southeast Asian countries and is one of the biggest retail banks in Turkey (Kuveyt T|rk Bank), Bahrain and Malaysia. The bank has won several accolades as Best Islamic Bank in the world from publications such as EuroMoney. KFH operates 47 branches and claims to hold 25% of all deposits in Kuwait. Its assets stood at KD 10.5 billion (or USD 39.3 billion) in December 2008, lagging market leader NBK by KD 1.1 billion (or USD 4.1 billion). KFH's S&P rating is A-. The bank's largest shareholders are GOK entities, namely the KIA (24%), the Public Authority for Minors Affairs (10%) and the Awqaf Public Foundation (8%). KFH's chairman and managing director is Bader Abdul Muhsen Al-Mukhaizeem.

¶19. (SBU) Boubyan Bank: Founded in 2004, Boubyan operates 14 branches in Kuwait and has assets of approximately KD 840.5 million or USD 2.9 billion (about one-thirteenth the size of those of KFH). The bank has become the vehicle through which NBK hopes to build up its own Islamic banking capabilities. As noted above, NBK has aggressively increased its ownership in Boubyan in recent weeks, bringing its ownership stake to 40%, and declared its intention to become the bank's majority shareholder. Boubyan is not rated by S&P.

¶10. (SBU) Kuwait International Bank (KIB): The former Kuwait Real Estate Bank, incorporated in 1973, formally converted to an Islamic bank in 2007 and has nine branches in Kuwait. The bank's assets stand at KD 1.08 billion (or USD 4.0 billion). KIB posted a modest loss for the first six months of 2009 and is expected to post a loss for the third quarter too, given exposure to the ailing Dar Investment firm. The bank's largest shareholders are the Al-Sabah controlled Kuwait Projects Company (KIPCO) (8%) and Matrook Trading & Contracting Co. (7%). The bank's General Manager for the past two years has been Adil Ahmed, a Pakistani-Australian banker, who is stepping down this month. KIB's efforts to recruit a successor for Ahmed reportedly have been stymied by the Central Bank, which has rejected two candidates, allegedly because they lack Islamic banking experience. KIB is not rated by S&P.

¶11. (SBU) In September 2009, the GOK announced the establishment of a fourth Islamic bank in Kuwait, Warba Bank. 76% of the new bank's

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shares will be held by Kuwait's more than one million citizens -- who will be allocated the shares free of charge -- and the remaining 24% will be owned by the KIA. Post's sources indicate that the bank will not commence operations until 2010 or even 2011 (septel).

Regulatory Environment

¶12. (SBU) The Central Bank of Kuwait, operating largely under Law 32 of 1968, has responsibility for regulating the banking sector, including, as of 2003, all Islamic banks. Under the 23-year leadership of Governor Shaykh Salem AbdulAziz Al-Sabah, the Central Bank has been a generally conservative banking supervisor with high general and extraordinary provisions for non-performing loans and a required "risk based" capital adequacy ratio of 12%. The major losses at Gulf Bank, however, as well as losses at Kuwait's investment companies (which are regulated by the Central Bank, but as non-deposit taking institutions have not received the same level of scrutiny) have demonstrated the need to improve banking supervision to deal with financial innovation. The Central Bank's remit does not formally extend to the Kuwait Stock Exchange (KSE) -- the Arab's world's second largest bourse -- and the lack of a capital markets authority continues to undermine foreign investors' confidence in the transparency and efficiency of Kuwait's financial markets. All of Kuwait's locally-owned banks are traded on the KSE. The GOK's Ministry of Commerce and Industry produced draft legislation for a capital markets authority in late 2007; the law has been discussed and edited several times by the National Assembly's economic and financial committee since that time, though there are no plans for a floor debate in the near future.

¶13. (SBU) Although profits are down and reportedly non-performing loans are up, Kuwait's banks have weathered the effects of the global financial crisis relatively well. Even Gulf Bank, its reputation tarnished and facing further book losses relating to the Al-Gosaibi and Saad groups' woes, is sufficiently capitalized to ride out likely operating losses for 2009. Contributing to the relative stability of the sector is the generally conservative and risk-adverse approach of Kuwaiti banks' boards of directors and executives. The conservatively-run KIA's large stakes in several banks is also seen as a brake on risk-taking. The Central Bank has promoted stability by ensuring adequate liquidity in the banking system and keeping bank chiefs' on a short leash with respect to risky investments and trading.

¶14. (SBU) However, Kuwait's banks are not out of the woods yet. In addition to possible exposure to the Al-Gosaibi and Saad groups, some of Kuwait's banks -- including CBK and Gulf Bank -- face exposure to Kuwait's troubled investment sector. Some of Kuwait's largest investment firms, including giants Global Investment House and Dar Investment have defaulted on multi-billion dollar obligations and continue to negotiate restructuring and standstill agreements with creditors (see refs C, D, E and F for further information). Additionally, lingering weaknesses in the local real estate market and Kuwait's underperforming stock market could also hurt Kuwaiti banks' balance sheets in the coming months. Post will continue to monitor and report on Kuwaiti banks' exposure to ailing investment companies.

JONES